



UNIVERSITY  
OF  
JOHANNESBURG

Department of Commercial Accounting

**TAXATION**  
**TAX33B3/TAX3BB3**

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**FINAL ASSESSMENT OPPORTUNITY**

**NOVEMBER 2017**

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**Time: 3 hours**

**Marks: 100**

**Assessors:** MS K ESTERHUIZEN  
MS J SOOBRAMONEY  
MR K MASEHELA

**Internal Moderator:** DR M BORNMAN

**External Moderator:** MS S MILLER

**INSTRUCTIONS:**

- This paper consists of 8 pages (including the cover page).
- **Answer all questions in the specially printed answer book.**
- Show all calculations, workings and reasoning clearly.
- Silent, non-programmable calculators may be used.
- Round up to the nearest Rand.

Question	Topic	Mark	Time
1	Individuals' normal Income tax liability	30	54 minutes
2	Fringe Benefits	10	18 minutes
3	Employees' Tax	15	27 minutes
4	Provisional Tax – Individuals	15	27 minutes
5	Capital Gains Tax - Individuals	20	36 minutes
6	Theory	10	18 minutes
		<b>100</b>	<b>180</b>

**QUESTION 1****(30 MARKS)**

Mr. Mpho, aged 45, was employed as the financial manager of Oaktree Interiors Ltd. Mr. Mpho is married to Susan, aged 43, **out of community of property**, and has one daughter Lucy, aged 15. During the 2017 year of assessment Oaktree Interiors Ltd went through some financial difficulties and had to retrench some of their employee's, unfortunately Mr. Mpho was one of them. 30 November 2016 was Mr. Mpho's last working day due to his retrenchment. By the end of the 2017 year of assessment Mr. Mpho was still unemployed.

The following information relates to Mr. Mpho's 2017 year of assessment:

	Notes	Mpho
<b>Receipts:</b>		<b>R</b>
Monthly Salary		45 000
Lump sum from Oaktree Interior Ltd.	1	150 000
Monthly UIF	2	8 000
S.A Interest income		15 000
USA Dividend income	3	11 000
Monthly annuity	4	10 000
Commuted annuity	4	980 000
<b>Expenses:</b>		
Annual Retirement annuity fund contribution	5	8 400
Annual medical aid fund contribution	6	24 000
Other medical expenses	6	?

**Notes**

- Oaktree Interior Ltd paid Mr. Mpho a lump sum on retrenchment.
- Mr. Mpho received his first UIF payment on 31 December 2016.
- Mr. Mpho holds 11% of the equity shares in the USA Company.
- On 1 January 2016 Mr. Mpho purchased an annuity, payable for 15 years, commencing on 31 January 2016. The annuity of R120 000 per annum is received monthly. Mpho paid R880 000 for the annuity. On 1 December 2016, Mr. Mpho commuted the annuity and received a lump sum of R980 000.
- Mr. Mpho continued to contribute towards his RAF after he was retrenched.
- Mr. Mpho continued to contribute towards his medical aid after his retrenchment. He is the main member of the medical aid scheme. Susan and their 15-year-old daughter Lucy are the only dependants on the medical aid. Other medical expenses incurred during the year of assessment that were not covered by the medical aid, are summarized as follows:

• Visits to a registered psychiatrist by Susan	R 3 400
• Diet pills for Susan bought at the gymnasium	R 2 200
• Prescription medicine bought	R 1 400
• X-rays cost for Lucy	R 600

All the medical expenses were paid by Mr. Mpho.

**YOU ARE REQUIRED TO:**

Calculate the normal tax liability of Mr. Mpho for the 2017 year of assessment.

**(30)**

**QUESTION 2**

**(10 MARKS)**

In each of the following scenarios you are required to calculate the income tax effect for the employee for the year of assessment ended 28 February 2017.

1. Mr. Peak is given the use of a motor car for the entire year of assessment. The car has a maintenance plan and cost the employer R250 000 (including. VAT). The employer also gives his wife the use of a motor car that has no maintenance plan that cost R120 000 (including. VAT).

**(3)**

2. On the 1 March 2016, James's employer arranged a loan of R950 000 from Keibank for him to buy a house. His employer would pay 9% and James would pay interest at the difference between the market rate and the 9%. The capital would only be repaid at the end of 10 years. Assume the following interest rates applied for the current year of assessment:

	<u>Market rate</u>	<u>Official rate</u>
1 March 2016 to 30 September 2016:	13%	14%
1 October 2016 to 28 February 2017:	15%	12%

**(5)**

3. ABC Ltd owns a holiday home in Durban. The use thereof was granted to Mr. Mike, an employee of ABC Ltd. The holiday home is normally rented out at R1000 per day. Mr. Mike spent 5 days on holiday in the holiday home during December 2017, and paid R250 per day for the holiday home.

**(2)**

**QUESTION 3**

**(15 MARKS)**

Mary Mbatha is a 47- year- old single mother of two. She worked for a property development company as the project manager until 1 January 2017, after which she decided to resign and start up her own business. By the end of February 2017 Mary's business was not yet set up. The following transactions relate to Mary's employment during the 2017 year of assessment:

- Mary received a monthly salary of R37 500;
- Mary had been given fringe benefits to the cash equivalent of R16 400;
- She further received a travel allowance of R1 500 per month. Mary used her car for work purposes for 90% of the time;
- While she was employed, Mary was part of the company's provident fund. She contributed 7% of her salary to this fund on a monthly basis.

- Mary's employer paid her an annual bonus in December 2016 of R15 000.

In addition to the above, Mary also received local interest amounting to R25 000.

**YOU ARE REQUIRED TO:**

Calculate the employees' tax withheld by Mary's employer from her remuneration for the 2017 year of assessment. Include explanations where necessary. **(15)**

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**QUESTION 4**

**(15 MARKS)**

Mr. Palau, a 53-year-old business man, trades in tools and is a registered provisional taxpayer.

He was advised by his accountant to base his first provisional payment for the 2017 year of assessment on an estimate of R640 000 (being the estimated income for 2017), but required your assistance as he had to pay penalties in previous tax years for making incorrect payments.

After questioning him, you discovered that he received his latest tax assessment for the 2015 year of assessment on 26 August 2016 indicating a taxable income of R580 000 for that year. He also produced the 2014 tax assessment that was received on 10 November 2014 and this reflected a taxable income of R545 000 for the 2014 year of assessment.

During August 2016, you prepared his tax return for the year of assessment ended 28 February 2017 and calculated his actual taxable income for the year to be R625 000.

**YOU ARE REQUIRED TO:**

1. Calculate the first provisional tax payment as at 31 August 2016 payable by Mr. Palau. **(6)**
  2. Calculate the second provisional tax payment for the 2017 year of assessment payable by Mr. Palau on 28 February 2017. **(3)**
  3. Calculate the third provisional tax payment as at 30 September 2017 payable by Mr. Palau. **(4)**
  4. In determining the basic amount for the provisional tax calculation, explain whether taxable capital gains should be included. **(2)**
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**QUESTION 5****(20 MARKS)**

During August 2016, Moses received news that an opportunity arose in his company for him to relocate permanently to Kenya. Since it was always a dream for him and his wife to travel, he decided to accept the offer and they moved to Kenya on 1 December 2016.

The following assets were owned by Moses prior to his emigration from South Africa:

	Market Value R	Cost R
Soweto Home (Note 1)	3 200 000	800 000
Furniture (In Soweto Home)	250 000	450 000
Holiday house in Mozambique (Note 2)	900 000	600 000
Motor vehicles (Note 3)	125 000	215 000
Gold coin collection (Note 4)	150 000	?

**Notes**

1. This home was Moses and his wife's primary residence. He bought the property on 10 September 2005. Moses had improved the property at a cost of R250 000 during 2009 and sold the property on 1 October 2016 for R3 700 000.
2. Moses had bought this property in December 1998. The market value on 1 October 2001 was R650 000. This property was sold on 30 November 2016 for R1 100 000.
3. Moses sold his car during November 2016. He was required to use his car for business purposes. Moses had however received a travel allowance from his employer to cover these expenses.
4. Moses sold his gold coin collection during November 2016 for R250 000. He inherited this collection from his grandfather in 2009 when the coins had a market value of R125 000. The coins had originally cost his grandfather R55 000.

**YOU ARE REQUIRED TO:**

Calculate the taxable capital gain to be included in Moses's Income Tax calculation for the 2017 year of assessment. **(20)**

**QUESTION 6****(10 MARKS)**

Indicate whether the following statements are **true** or **false**. Include reasons for **all** answers provided:

1. For spouses married in community of property, the income earned from investments should be treated as accruing **only** to the spouse who has taken out the investment. **(2)**
2. A person whose only form of income is interest income is considered to be an employee for employees' tax purposes as he/she is receiving income. **(2)**
3. Any person who derives income from remuneration is seen to be a provisional taxpayer for tax purposes. **(2)**
4. Capital gains tax provisions would be applicable to the normal sale of trading stock by a retail company to its customers. **(2)**
5. In calculating a person's normal tax payable, a person would only need to pay normal income taxes if their taxable income for the 2017 year of assessment is more than R75 000. **(2)**

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**[TOTAL: 100 MARKS]**

**Appendix A:****Rates of tax for individuals****2017 tax year (1 March 2016 - 28 February 2017)**

<b>Taxable income (R)</b>	<b>Rates of tax (R)</b>
0 – 188 000	18% of taxable income
188 001 – 293 600	33 840 + 26% of taxable income above 188 000
293 601 – 406 400	61 269 + 31% of taxable income above 293 600
406 401 – 550 100	96 264 + 36% of taxable income above 406 400
550 101 – 701 300	147 996 + 39% of taxable income above 550 100
701 301 and above	206 964 + 41% of taxable income above 701 300

<b>Severance benefit tax table and Retirement benefit tax table</b>	
<b>Taxable income from severance benefits</b>	<b>Rate of Tax</b>
Not exceeding R500 000	0% of taxable income
Exceeding R500 000 but not exceeding R700 000	R0 plus 18% of taxable income exceeding R500 000
Exceeding R700 000 but not exceeding R1 050 000	R36 000 + 27% of taxable income exceeding R700 000
Exceeding R1 050 000	R130 500 plus 36% of taxable income exceeding R1 050 000

<b>Withdrawal benefit tax table</b>	
<b>Taxable income from Lump sum benefits</b>	<b>Rate of Tax</b>
R0 – R25 000	0% of taxable income
R25 001 - R660 000	R0 plus 18% of taxable income exceeding R25 000
R660 001 - R990 000	R114 300 + 27% of taxable income exceeding R660 000
R990 001 -	R203 400 plus 36% of taxable income exceeding R990 000

**Travel allowance – cost scale**

Value of the vehicle (R)	Fixed cost (R p.a)	Fuel cost (c/km)	Maintenance cost (c/km)
0 - 80 000	26 675	82.4	30.8
80 001 - 160 000	47 644	92.0	38.6
160 001 - 240 000	68 684	100.0	42.5
240 001 - 320 000	87 223	107.5	46.4
320 001 - 400 000	105 822	115.0	54.5
400 001 - 480 000	125 303	132.0	64.0
480 001 - 560 000	144 784	136.5	79.5
more than 560 000	144 784	136.5	79.5

**FORMULAE:**

1.	$Y = A/B \times C$
2.	$X = A - D$
3.	$A = B \times C$
4.	$(A - B) \times C/100 \times D/12$
5.	$Y = B + [(P-B) \times N] / T + N$
6.	$P = R \times B / (A + B)$